

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

May 18, 2021

3:28 p.m.

MEMBERS PRESENT

Representative Ivy Spohnholz, Chair
Representative Adam Wool, Vice Chair
Representative Andy Josephson
Representative Calvin Schrage
Representative Andi Story
Representative Mike Prax
Representative David Eastman

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 37

"An Act relating to deposits into the dividend fund; relating to income of and appropriations from the earnings reserve account; relating to the taxation of income of individuals, partners, shareholders in S corporations, trusts, and estates; relating to a payment against the individual income tax from the permanent fund dividend disbursement; repealing tax credits applied against the tax on individuals under the Alaska Net Income Tax Act; and providing for an effective date."

- MOVED CSHB 37(W&M) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 37

SHORT TITLE: INCOME TAX; PERMANENT FUND; EARNINGS RES.

SPONSOR(s): REPRESENTATIVE(s) WOOL

02/18/21	(H)	PREFILE RELEASED 1/8/21
02/18/21	(H)	READ THE FIRST TIME - REFERRALS
02/18/21	(H)	CRA, STA, FIN
04/28/21	(H)	W&M REPLACES CRA REFERRAL
04/28/21	(H)	BILL REPRINTED
05/11/21	(H)	W&M AT 11:30 AM DAVIS 106
05/11/21	(H)	-- MEETING CANCELED --
05/13/21	(H)	W&M AT 11:30 AM DAVIS 106

05/13/21	(H)	Heard & Held
05/13/21	(H)	MINUTE (W&M)
05/15/21	(H)	W&M AT 11:30 AM DAVIS 106
05/15/21	(H)	Heard & Held
05/15/21	(H)	MINUTE (W&M)
05/18/21	(H)	W&M AT 11:30 AM DAVIS 106

WITNESS REGISTER

CONOR BELL, Fiscal Analyst
Legislative Finance Division
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 37.

EMILY NAUMAN
Legislative Legal Services
Legislative Agencies and Offices
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 37.

KEN ALPER, Staff
Representative Adam Wool
Alaska State Legislature

POSITION STATEMENT: Answered questions during the hearing on HB 37, on behalf of Representative Wool, prime sponsor.

ACTION NARRATIVE

[3:28:46 PM](#)

CHAIR IVY SPOHNHOLZ called the House Special Committee on Ways and Means meeting to order at 3:28 p.m. Representatives Wool, Josephson, Schrage, and Spohnholz were present at the call to order. Representatives Story, Eastman, and Prax arrived as the meeting was in progress.

HB 37-INCOME TAX; PERMANENT FUND; EARNINGS RES.

[3:29:13 PM](#)

CHAIR SPOHNHOLZ announced that the first order of business would be HOUSE BILL NO. 37, "An Act relating to deposits into the dividend fund; relating to income of and appropriations from the earnings reserve account; relating to the taxation of income of individuals, partners, shareholders in S corporations, trusts,

and estates; relating to a payment against the individual income tax from the permanent fund dividend disbursement; repealing tax credits applied against the tax on individuals under the Alaska Net Income Tax Act; and providing for an effective date."

3:29:31 PM

The committee took an at-ease from 3:29 p.m. to 3:31 p.m.

3:31:48 PM

CHAIR SPOHNHOLZ took up amendments on HB 37.

REPRESENTATIVE JOSEPHSON moved to adopt Amendment 1 to HB 37, labeled 32-LS0275\A.1, Nauman, 5/14/21, which read:

Page 3, line 17:

Delete "20"

Insert "10"

Page 3, line 20:

Delete "80"

Insert "90"

Page 27, line 25:

Delete "under AS 37.13.145(b) "

Insert "[UNDER AS 37.13.145(b) "

Page 28, following line 13:

Insert new bill sections to read:

"* Sec. 12. AS 43.23.028(a) is amended to read:

(a) By October 1 of each year, the commissioner shall give public notice of the value of each permanent fund dividend for that year and notice of the information required to be disclosed under (3) of this subsection. In addition, the stub attached to each individual dividend disbursement advice must

(1) disclose the amount of each dividend attributable to legislative appropriations [INCOME EARNED BY THE PERMANENT FUND FROM DEPOSITS TO THAT FUND REQUIRED UNDER ART. IX, SEC. 15, CONSTITUTION OF THE STATE OF ALASKA];

(2) [DISCLOSE THE AMOUNT OF EACH DIVIDEND ATTRIBUTABLE TO INCOME EARNED BY THE PERMANENT FUND FROM APPROPRIATIONS TO THAT FUND AND FROM AMOUNTS ADDED TO THAT FUND TO OFFSET THE EFFECTS OF INFLATION;

(3)] disclose the amount by which each

dividend has been reduced due to each appropriation from the dividend fund, including amounts to pay the costs of administering the dividend program and the hold harmless provisions of AS 43.23.240;

(3) [(4)] include a statement that an individual is not eligible for a dividend when

(A) during the qualifying year, the individual was convicted of a felony;

(B) during all or part of the qualifying year, the individual was incarcerated as a result of the conviction of a

(i) felony; or

(ii) misdemeanor if the individual has been convicted of a prior felony or two or more prior misdemeanors;

(4) [(5)] include a statement that the legislative purpose for making individuals listed under (3) [(4)] of this subsection ineligible is to

(A) provide funds for services for and payments to crime victims and operating costs of the Violent Crimes Compensation Board;

(B) provide funds to pay restitution owed to crime victims;

(C) provide funds for grants to nonprofit organizations for services for crime victims and for mental health services and substance abuse treatment for offenders;

(D) provide funds for the office of victims' rights;

(E) provide funds to the Council on Domestic Violence and Sexual Assault for grants for the operation of domestic violence and sexual assault programs; and

(F) obtain reimbursement for some of the costs imposed on the Department of Corrections related to incarceration or probation of those individuals;

(5) [(6)] disclose the total amount that would have been paid during the previous fiscal year to individuals who were ineligible to receive dividends under AS 43.23.005(d) if they had been eligible;

(6) [(7)] disclose the total amount transferred or appropriated for the current fiscal year under AS 43.23.048 for each of the accounts, funds, and agencies listed in AS 43.23.048.

* Sec. 13. AS 43.23.045 is amended by adding a new subsection to read:

(f) Each fiscal year, the legislature may appropriate to the dividend fund an amount equal to 30 percent of all mineral lease rentals, royalties, royalty sale proceeds, bonuses, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state during that fiscal year."

Renumber the following bill sections accordingly.

Page 29, line 2:

Delete "Section 17"

Insert "Section 18"

Page 29, line 5:

Delete "11, 13, and 15"

Insert "11 - 13, 15, and 17"

Page 29, line 6:

Delete "18 - 20"

Insert "20 - 22"

CHAIR SPOHNHOLZ objected for the purpose of discussion.

[3:32:24 PM](#)

REPRESENTATIVE JOSEPHSON explained that Amendment 1 would create a 90/10 split, as opposed to an 80/20 split, while keeping the same income tax and replacing the other 10 percent of the percent of market value (POMV) draw with the language from HB 202. The result would be a dividend amounting to approximately \$1,000 in the current year [fiscal year 2021 (FY 21)]. He said he likes that the proposed legislation adopts the argument that royalty is the true measure of the state's interest in mineral holdings. Further, that the bill combines a portion of the POMV with the royalty interest. He suggested that despite the income tax feature in HB 37, which makes the legislation self-sustainable, a 90/10 split would ensure that public services are not impacted.

CHAIR SPOHNHOLZ asked Mr. Bell to describe how Amendment 1 would impact dividends in the near future, questioning the size of the permanent fund dividend (PFD) according to HB 37 if Amendment 1 were to pass.

[3:35:40 PM](#)

CONOR BELL, Fiscal Analyst, Legislative Finance Division, shared his understanding that reducing the dividend to 10 percent of the POMV draw would result in a dividend of \$430 per person in FY22. If 30 percent of total royalties were to be added to that, the dividend would increase to \$950.

[3:36:34 PM](#)

REPRESENTATIVE WOOL, prime sponsor of HB 37, expressed his support for Amendment 1. He said he liked that the dividend would be partially tied to oil revenue; consequently, the PFD would increase if oil performed well and decrease if it performed poorly. He noted that the 10 percent POMV, estimated at about \$500, is the more predictable component; therefore, if oil were to decline to zero, there would still be a portion of the dividend that could be relied upon.

[3:37:59 PM](#)

REPRESENTATIVE EASTMAN asked whether any language [in the amendment] listed the amount attributable to royalties.

REPRESENTATIVE JOSEPHSON sought to confirm that Representative Eastman was asking whether the public would be informed of the calculation on royalties as part of their receipt of the dividend.

REPRESENTATIVE EASTMAN remarked, "It says that we're going to designate the amount from the legislative appropriations. I'm just wondering if we're going to explain to them where the rest of it's coming from."

REPRESENTATIVE JOSEPHSON said he was unsure to what language Representative Eastman was referring.

[3:39:08 PM](#)

The committee took an at-ease from 3:39 p.m. to 3:41 p.m.

[3:41:37 PM](#)

CHAIR SPOHNHOLZ noted that Emily Nauman from Legislative Legal Services was now available for questions and invited Representative Eastman to restate his question.

[3:41:58 PM](#)

REPRESENTATIVE EASTMAN directed attention to page 1, line 20, of Amendment 1, which required the amount of each dividend attributable to legislative appropriations be disclosed. Additionally, the proposed amendment included appropriations from royalties. He asked whether there was similar language that would disclose the amount attributable to royalties.

[3:42:42 PM](#)

EMILY NAUMAN, Legislative Legal Services, Legislative Agencies and Offices, asked whether Representative Eastman was referring to the royalties contributed per Amendment 1 on page 3, lines 9-12.

REPRESENTATIVE EASTMAN confirmed yes.

MS. NAUMAN said the proposed amendment would not require the commissioner to specifically break [down] that appropriation from any other legislative appropriation that would go towards dividends. She noted that this form of contribution to dividends in the language in question [page 3, lines 9-12] is also any appropriation, which is why it would be included.

REPRESENTATIVE JOSEPHSON asked whether Ms. Nauman was suggesting that by the use of the term "may appropriate" on page 3, line 9, that the [30 percent of all royalties] would become disclosable because of page 1, line 20, of Amendment 1.

MS. NAUMAN confirmed that is correct. She explained that Section 12, appearing on page 1, line 15, of Amendment 1, is the existing statute relating to a notice attached to each individual dividend, which sets out from where the calculation for the dividend originates. Therefore, per the language added on page 1, lines 20-21, the commissioner would have to disclose the amount appropriated for the dividend.

REPRESENTATIVE EASTMAN considered a scenario in which the dividend was 100 percent attributable to legislative appropriations and asked what information would be provided through this disclosure.

MS. NAUMAN pointed out that Section 12 continues on line 2, wherein adjustments are considered. She explained that the calculation on the attached notice would start with the amount attributable to legislative appropriation and flow through

paragraph (3)-(6) to lay out for the dividend recipient where portions of the total amount appropriated may have gone.

[3:45:54 PM](#)

REPRESENTATIVE EASTMAN sought to clarify his question. In reference to page 1, line 20, he asked whether "the amount dealing with the royalty is going to be broken out" or if that's at the discretion of the department.

MS. NAUMAN responded that currently, the amendment does not require the commissioner to break that amount out. She believed the decision to do so could be made per the commissioner's discretion, but it's not required under statute.

[3:46:32 PM](#)

CHAIR SPOHNHOLZ removed her objection to the motion to adopt Amendment 1 to HB 37.

REPRESENTATIVE EASTMAN objected. He said he appreciated the creativity of the approach; however, he didn't think his constituents would see the proposed amendment as an improvement to the statute.

[3:47:01 PM](#)

A roll call vote was taken. Representatives Wool, Josephson, Schrage, Story, and Spohnholz voted in favor of the adoption of Amendment 1. Representative Eastman voted against it. Therefore, Amendment 1 was adopted by a vote of 5-1.

[3:47:46 PM](#)

REPRESENTATIVE SCHRAGE moved to adopt Conceptual Amendment [2].

CHAIR SPOHNHOLZ objected for the purpose of discussion.

REPRESENTATIVE SCHRAGE said Conceptual Amendment [2] would align the deductions in HB 37 with the Internal Revenue Service (IRS) deductions.

CHAIR SPOHNHOLZ removed her objection.

[3:48:07 PM](#)

REPRESENTATIVE EASTMAN objected, explaining that he was still processing Conceptual Amendment [2]. He questioned whether the proposed amendment was intended to increase the tax deductions because under the federal tax code, those deductions already exist. He asked if that was correct.

REPRESENTATIVE SCHRAGE answered yes. He believed that the benefit would be the exemption of additional income from taxation beyond the original bill; therefore, it would reduce the amount of revenue collected through this legislation by a nominal amount.

[3:49:05 PM](#)

REPRESENTATIVE WOOL expressed his support for Conceptual Amendment [2], citing its alignment with the federal tax code for individuals and the addition of categories, such as head of household and joint filers. He noted that the bill in its original form has \$10,000 per individual and \$20,000 per joint filers; however, the proposed amendment would increase those figures to \$12,500, \$25,000, and \$18,800 for head of household. He shared that Conceptual Amendment [2] would help out lower income people that are getting a dividend by exempting more of their income from taxation.

[3:50:15 PM](#)

CHAIR SPOHNHOLZ said she supported the idea of increasing the floor; however, she expressed her concern that the number was still low. She highlighted that in Alaska, the poverty line was 16,090. She suggested that the measure could be viewed as a compromise measure, as it would require low-income individuals to participate in an income tax; nonetheless, she characterized an individual who is trying to live on \$12,500 in Alaska as "untenable."

REPRESENTATIVE WOOL clarified that he was not advocating for people to live on an income of \$12,000 - \$16,000, adding that such circumstances are unfortunate. However, he reiterated that someone in that income bracket would receive a PFD free of tax.

CHAIR SPOHNHOLZ suggested further defining "head of household" versus "taxpayer."

[3:53:24 PM](#)

KEN ALPER, Staff, Representative Adam Wool, relayed that the goal of Conceptual Amendment [2] was to align HB 37 with the federal standard deduction. He directed attention to page 2 of the proposed amendment, which adds a new definition for "head of household" to the definitions section of the underlying bill. He indicated that head of household is defined as a single person or a married person that files separately from his/her spouse who has at least one additional dependent in the household. He continued to explain that "head of household" is different than a single person and joint filer with or without dependents because "it's a single filer with children or elderly people that [he/she] would be responsible for caring for." He noted that within the federal code there are additional deductibles for dependents, which are not included in HB 37; nonetheless, the idea of "dependent" is carried forward into the definition of head of household.

[3:54:53 PM](#)

REPRESENTATIVE EASTMAN inquired about the plural "dependents" in "qualified dependents." He asked whether a single parent with one child would qualify.

MR. ALPER was certain that all grammatical technicalities would be "cleaned up" by drafters, should the conceptual amendment pass. He clarified that the per the sponsor's intent, more than one dependent would not be required to qualify.

CHAIR SPOHNHOLZ asked Ms. Nauman to speak to the process of cleaning up conceptual language.

MS. NAUMAN said to the extent that the committee adopts Conceptual Amendment [2] and gives Legislative legal Service the authority to make conforming changes, the amendment will be aligned with the drafting manual, which includes the use of singular rather than plural.

[3:56:38 PM](#)

REPRESENTATIVE EASTMAN directed attention to the bottom of page 1 of the conceptual amendment and asked how it would work if the federal government were to change its income tax brackets.

REPRESENTATIVE WOOL reiterated that the intent is to align with federal law. He understood that if the federal government were to change the income exemption levels on the federal tax return, the state would automatically align itself with those changes.

REPRESENTATIVE EASTMAN inquired about the impact of the federal government changing the income tax brackets.

REPRESENTATIVE WOOL stated that HB 37 would implement a flat tax of 2.5 percent rather than a bracketed tax. He reiterated that if the state would track federal changes to income exemptions, but not income tax brackets.

[3:58:36 PM](#)

MR. ALPER conveyed that the underlying bill had the standard deduction of \$10,000 and \$20,000 that was indexed to inflation based on Alaska-specific inflation; however, in the section of the Amendment referenced by Representative Eastman, those references are being deleted in favor of the IRS's definition of standard deduction for which a new number is published every year. He added that as the IRS updated those numbers annually, Alaska's income tax would use the IRS standard deduction figures.

REPRESENTATIVE SCHRAGE spoke to the level of deductions with respect to lower income households and the idea that someone making \$13,000 would be above the exemption levels. He explained that of the \$13,000 in income, only \$450 would be taxed at 2.5 percent. Therefore, the tax would be less than \$20 for that individual.

[4:00:13 PM](#)

REPRESENTATIVE EASTMAN asked whether unused deductions could be carried over to the next tax year.

REPRESENTATIVE SCHRAGE offered his understanding that unused deductions could not be carried over.

[4:00:46 PM](#)

REPRESENTATIVE EASTMAN maintained his objection to the motion to adopt Conceptual Amendment [2].

[4:01:04 PM](#)

A roll call vote was taken. Representatives Wool, Josephson, Schrage, Story, Prax, and Spohnholz voted in favor of adopting Conceptual Amendment [2]. Representative Eastman voted against

it. Therefore, Concept Amendment [2] was adopted by a vote of 6-1.

CHAIR SPOHNHOLZ invited question from the committee.

[4:02:11 PM](#)

REPRESENTATIVE STORY expressed her appreciation for both amendments. She believed the 90/10 split recognizes the need for services, such as senior benefits, while still providing a dividend of around \$1,000. Further, she appreciated that Conceptual Amendment [2] acknowledges the stress of being on a limited income. She reiterated her support for both changes.

[4:03:36 PM](#)

REPRESENTATIVE EASTMAN shared his belief that there's popular support for the considerable compensation received by those the who manage the permanent fund investments. He argued that currently, the investors' work is largely done on behalf of the state and the public; however, under HB 37, as amended, 90 percent of their work would be done on behalf of the state while 10 percent would be for the people. He wondered whether the public's support of the investors' salaries might wane if this bill were to become law.

REPRESENTATIVE SCHRAGE, in response to Representative Eastman, pointed out that the majority of the Alaska Permanent Fund Corporation's (APFC's) work has gone toward funding the government with a relatively small portion going to dividends. He contended that HB 37 wouldn't be implementing a large change in that regard. He posited that the proposed legislation would maintain the status quo of the last 5 to 6 years; further, that the public wouldn't have cause to forego their support of APFC. He commended the committee for tying the dividend to resource production in Alaska in a tangible way while still retaining a link to the permanent fund in case of fluctuating oil revenue in variant years. Additionally, he highlighted the benefit of providing sustainability for Alaska. He emphasized that HB 37 would maintain the dividend program and increase the amount to nearly \$1,000 in addition to balancing the budget to avoid overdrawing the ERA. He believed it would allow Alaska to meet its basic needs as a state and ideally, increase the capital budget while still providing for a dividend. He characterized the proposed legislation as the best of both worlds, as it offers a comprehensive solution that presents as a compromise between HB 202 and various flat tax proposals.

REPRESENTATIVE JOSEPHSON said he is mystified as to how some Alaskans have struggled with [the legislature's] "current position" and think that there is a conspiracy of some sort or that [the legislature] is hiding the money. He asserted that [some Alaskans] seem to believe that "all can be the way it was in ... FY 12 or FY 13, which isn't possible, he indicated. He mused that a dividend of \$3,000 would be fine if one million barrels of oil was being generated per day at \$130 per barrel. He argued that if HB 37 were to pass, "the glass is easily half full and then some," as Alaska is the only state that can sustainably draw \$3,000 in perpetuity. He shared his belief that the dividend needs to be reformed; however, he expressed his intent to oppose any major reforms until revenue is part of the package. Given that circumstance, he stated his support for the proposed legislation.

4:11:18 PM

REPRESENTATIVE PRAX conveyed his opposition to HB 37 as a solution to the revenue problem. He said the legislation includes several factors to which he philosophically objects. He argued that the bill would change the PFD into a royalty, as opposed to a dividend, which is conceptually different. Further, he posited that it would put the income volatility risk on private citizens. He reiterated his objection on a conceptual level, arguing that the people should be considered the sovereigns as opposed to the state. He alleged that the resistance to the governor's previously proposed budget, in which public services were significantly reduced, was less of a public outcry and more so organized by groups that primarily benefit from state spending.

REPRESENTATIVE WOOL, in response to Representative Eastman's comments regarding 90 percent of the POMV going to the state as opposed to the public, argued that the public benefits from some of that percentage in terms of public schools, public safety, and public health. He pointed out that without public safety or education, Alaska would be a tough place to live. In response to Representative Prax, he contended that a 10 percent POMV draw is not volatile; however, the royalty could be perceived as volatile, he said. Further, he argued that contrary to Representative Prax's assertion, the public responded in "mass, unorganized, organic fashion" to the governor's proposed budget cuts, adding that he had never received more emails in his life in such a short amount of time. He pointed out that without a PFD, the current budget is balanced, arguing that there's no

sustainable way to pay for the dividend without drawing down yet another state account, the ERA. Consequently, he opined that any PFD proposal should include a funding mechanism. He reiterated that HB 37 would allocate 10 percent of the POMV draw and 30 percent of royalties towards the dividend while the tax revenue would go directly into the general fund along with 90 percent of the POMV draw. He remarked "I'm not sure you can have your cake and eat it too, where we can pay for all our state services, everyone in the state gets a check ... and yet, we're not taxed." He acknowledged that it was possible in the "glory days" of oil, but those days are less prevalent now, he said. Additionally, he recalled that the permanent fund was created to sustain the state when its finite resource started to dwindle, which it has. He believed it should continue to be used for that purpose and preserved without overdrawing. He opined that HB 37 solves that problem.

4:19:23 PM

CHAIR SPOHNHOLZ applauded the committee for its important work. In response to Representative Eastman's characterization of the bill "turning the permanent fund into working for the state," she said the state is designed to provide services for which a profit cannot be made, and capitalism cannot deliver. Further, she highlighted the constitutional obligations to provide for public education, health, and safety of Alaskans. She also noted several ways in which the state supports commerce, such as resource development, business licensing, and the court system. She remarked, "We cannot buy enough public safety with a \$3,000 dollar dividend to make up for the difference. I couldn't take ... the difference between the statutory PFD and a \$1,000 dollar PFD and buy all the public education and safety that I get as an Alaskan citizen." She emphasized that government is not inherently evil, adding that it simply provides for things that cannot be achieved individually. She went on to point out that the structural deficit has persisted for seven years now, sharing her belief that "it [Alaska] won't be able to drill our way out of this problem any time soon." She said that Alaska has become an investment state and contemplated how to build an Alaska that is prosperous for future generations. She recalled that when the governor had introduced his budget in 2019, she received over 4,000 emails from people who were terrified of how gutting state services would impact the state. She thanked Representative Wool for having the courage to introduce HB 37, as it would help balance the budget, create fiscal certainty, fund a reasonable PFD, fund capital budgets, and start to rebuild the state's fiscal situation. Additionally, she noted

that the proposed legislation would increase the CBR to nearly \$8 billion by FY 30 and allow the permanent fund to grow. She concluded by reiterating her support for the bill.

[4:23:51 PM](#)

REPRESENTATIVE SCHRAGE moved to report HB 37, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 37(W&M) was reported out of the House Special Committee on Ways and Means.

CHAIR SPOHNHOLZ offered closing remarks and authorized Legislative Legal Services to make technical and conforming changes to CSHB 37(W&M).

[4:26:26 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 4:26 p.m.